



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Ed Shikada

SUBJECT: SEE BELOW

DATE: May 25, 2006

Approved

/s/

Date

05/25/06

**SUBJECT: REVISIONS TO THE PUBLIC SAFETY CAPITAL PROGRAM IN THE
2006-2007 PROPOSED CAPITAL BUDGET AND 2007-2011 CAPITAL
IMPROVEMENT PROGRAM**

RECOMMENDATION

Accept this report on the changes to the Public Safety Capital Program that have been incorporated into the 2007-2011 Proposed Capital Improvement Program (CIP).

BACKGROUND

In the Mayor's March Budget Message, staff was directed to identify changes to the Public Safety capital projects funded by Measure "O" – the San José 9-1-1 Fire, Police, Paramedic and Neighborhood Security Act brought forward in the 2006-2007 Proposed Capital Budget and 2007-2011 Proposed CIP. This report outlines the changes from the 2006-2010 Adopted CIP, including changes in project costs and schedules.

In both the 2004-2005 and the 2005-2006 Adopted Capital Budgets, changes to the Public Safety Capital Program were brought forward to optimize the use of Bond funding to build facilities that most efficiently and effectively support public safety operations in the community, to manage operating costs, and to ensure that sufficient funding was available to complete the fire station projects. As in the two previous fiscal years, staff has continued to evaluate how to best use the Public Safety Bond funds to implement the approved capital program.

ANALYSIS

The most significant changes incorporated into the 2007-2011 Proposed CIP include increases in project budgets that total \$10.9 million to address projected cost escalation. In addition, there are some updates to project schedules.

Project Funding Adjustments

The proposed changes to project funding levels reflected in the Proposed Budget are in response to recent increases in project delivery and construction costs to deliver public safety facilities that

meet the functional, safety, and life expectancy needs of the City. Key factors in the project cost increases reflected in the Proposed CIP include:

- Recognition of a general increase in construction costs of approximately 10% to 12% for municipal facilities during 2005-2006. This rate of increase exceeded the standard 5% per year escalation rate used for escalating costs in the 2006-2010 CIP.
- Recognition that additional budgets for design contingencies and value engineering activities will be required to address ongoing market fluctuations in construction of public safety facilities.

The Public Safety Capital Program is entering a very active period of bidding and awards through the end of the current fiscal year and the first half of 2006-2007. By the 3rd quarter of 2006-2007, as many as six new Public Safety Bond Fire Stations are scheduled to be in various stages of construction. The construction industry in general and the Bay Area in particular continue to experience historically high rates of increased construction costs or “escalation”. Staff reports developed during this budget cycle have identified a range of 10% to 12% rate of escalation for the preceding 18 to 24 months. This rate is approximately double the standard rate of 5% used to project annual increases in construction costs. Staff, with consultant assistance, has responded to these increases using industry-recognized methods of value engineering, design alternatives and evaluation of potential reductions in project scopes. Fire station projects underwent an extensive review and value-engineering exercise of the Fire Facility Program guidelines to identify opportunities to reduce material and construction costs while preserving the basic functional requirements.

However, projected increases in construction costs could not be absorbed with the funding levels included in the 2006-2010 Adopted CIP without sacrificing operational requirements or the long-term durability of these facilities. Additional funding of \$10.9 million is needed to bridge project funding gaps. On average, 90% of this amount is associated with the current and projected increases in construction costs. The remaining 10% addresses current and projected value engineering and design efforts as well as future increases in the cost of professional design and consulting services. These adjustments are itemized in the “Proposed Facilities Cost and Schedule Adjustments” table on page 3 of this document.

Schedule adjustments

The Proposed Facilities Cost and Schedule Adjustments table also summarizes the proposed modifications to construction schedules for Public Safety Bond projects contained in the proposed 2007-2011 CIP. The schedules for Fire Station Nos. 19 and 21 rely on completion of land acquisition and will remain schedule pending (TBD) until property can be secured. On February 28, 2006, Council approved language for a June 6, 2006 ballot measure requesting voters to authorize the City to construct a two-company fire station on one acre in Silver Creek Park. The Fire Station No. 36 project schedule is contingent on the outcome of the ballot measure. For all other Public Safety Bond projects requiring land, staff is actively pursuing land acquisition opportunities to acquire property at the earliest feasible date.

Proposed Facilities Cost and Schedule Adjustments

Projects	2006-2010 Adopted CIP (\$)	2007-2011 Proposed CIP (\$)	\$ Change	2006-2010 Adopted CIP Completion Date	2007-2011 Proposed CIP Completion Date
<i>9-1-1 Communications Dispatch Center*</i>					
Remodel of existing center	2,947,000	2,947,000	0	3Q/07	3Q/08
<i>Driver Safety Training Center</i>	7,807,000	8,137,000	330,000	4Q/06	3Q/08
<i>East San José Community Policing Center</i>	1,739,000	1,739,000	0	TBD	No Change
<i>Fire Station 2</i>					
Rebuild at current location	5,569,000	6,747,000	1,178,000	2Q/08	No Change
<i>Fire Station 12</i>					
Relocation from Snell Avenue to Cahalan Avenue	3,148,000	3,870,000	722,000	4Q/07	No Change
<i>Fire Station 17</i>					
Relocation from Ridgewood to Blossom Hill and Coniston Way	3,001,000	3,922,000	921,000	1Q/07	4Q/07
<i>Fire Station 19</i>					
Proposed relocation from Piedmont to Piedmont and Sierra area	2,995,000	3,860,000	865,000	TBD	No Change
<i>Fire Station 21</i>					
Proposed relocation from Mt. Pleasant to White Rd area	4,002,000	4,730,000	728,000	4Q/07	TBD
<i>Fire Station 25</i>					
Relocation and replacement from Gold St. to Wilson Way	4,237,000	5,117,000	880,000	3Q/07	No Change
<i>Fire Station 33 **</i> (Communications Hill)	Developer turnkey	Developer turnkey	N/A	3Q/06	3Q/07
<i>Fire Station 34</i> (Berryessa/Las Plumas)	5,902,000	6,137,000	235,000	2Q/07	No Change
<i>Fire Station 35</i> (Cottle/Poughkeepsie)	5,993,000	6,645,000	652,000	3Q/07	No Change
<i>Fire Station 36</i> (Yerba Buena/Silver Creek)	5,317,000	6,421,000	1,104,000	3Q/08	No Change
<i>Fire Station 37</i> (Willow Glen)	3,719,000	4,888,000	1,169,000	2Q/10	No Change
<i>Fire Station Upgrades</i>	8,487,000	8,487,000	0	Multi-Phase	No Change
<i>Fire Training Center</i>	3,893,000	3,893,000	0	3Q/07	TBD
<i>South San José Police Substation</i>	65,924,000	67,803,000	1,879,000	2Q/09	3Q/09
<i>Central(North) Community Policing Center</i>	1,764,000	323,000	(1,441,000)	N/A	N/A
<i>West San José Community Policing Center***</i>	1,756,000	2,038,000	282,000	1Q/06	2Q/06
<i>South San José Community Policing Center</i>	1,739,000	1,739,000	0	TBD	No Change
<i>Reserve for Police Bond Projects</i>	0	1,441,000	<u>1,441,000</u>	N/A	N/A
<i>TOTAL CHANGE</i>			10,945,000		

NOTES:

- * The 9-1-1 Communications Dispatch Center project depends on completion of a portion of the Health Building Renovation project.
- ** Station 33 is a developer-funded and constructed station.
- *** Council adopted this increased funding to award construction of this project on September 23, 2005. Change in funding reflects difference in year over year adopted Capital Budget.

Funding Strategy

The funding reallocation strategy proposed in the Public Safety portion of the 2006-2007 Capital Budget and the 2007-2011 Proposed CIP results in a net additional one-time increase in costs of approximately \$10.9 million over the 2006-2010 Adopted CIP. The following funding sources have been identified to cover this additional cost:

Funding Source	Amount
Contingency Reserve Allocates Contingency Reserve to various projects. After these actions, \$6.0 million remains in the Contingency Reserve.	\$3.5 million
Interest Revenue Recognizes interest revenue anticipated over the five-year period.	\$6.2 million
Bond Sale Revenue Recognizes the additional bond capacity available as a result of lowering the anticipated bond issuance costs.	\$0.6 million
Ending Fund Balance/Non-Construction Program Savings The Ending Fund Balance has been reduced to \$78,000, generating savings of \$552,000 and non-construction program costs have been reduced by approximately \$40,000.	\$0.6 million
Total Funding Sources	\$10.9 million

To address unknown future costs associated with implementing the Public Safety Bond capital program, staff is further recommending in the Proposed CIP the following reserves:

- Maintain a \$6.0 million program wide Contingency Reserve;
- Establish a Reserve: For Police Bond Facilities Contingency in the amount of approximately \$1.44 million from project savings realized on the completed North Community Policing Center project; and
- Establish a \$500,000 reserve from Fire C&C for unanticipated construction costs.

Use of the reserves must be approved through City Council action. Any use of the reserves will be brought forward after careful consideration of the overall impact on the bond program with the goal to ensure sufficient reserves are available to address the projects that will be awarded towards the end of the bond program.

Future Actions

In order to complete the renovation of the 9-1-1 Communications Center, staff is proposing to relocate staff from the Police Systems Development Unit (PSDU). It is currently planned that these staff will be relocated to the Health Building. In addition to housing the PSDU, the Health Building is being evaluated by staff for its suitability for permanent relocation of the Police

Training Unit and Police Academy. Relocation of Police Training Unit from its current home in leased space is being further addressed in the Municipal Improvements CSA Budget proposal.

ALTERNATIVES

There are some alternatives to adjusting the funding levels as recommended in the 2006-2007 Proposed Budget and 2007-2011 CIP.

The first alternative is to reduce project scopes so that they can be designed and constructed within their 2006-2010 Adopted CIP funding levels. These reductions would require elimination or deferred construction of operational and support areas as well as selection of lower cost materials, which would impact the functionality and operational effectiveness of facilities. This option would also require re-design of up to eight fire station and police projects, which will subsequently delay their programmed completion dates by a minimum of three to six months each. Under this option, a larger program-wide Contingency Reserve would be retained that could be utilized at a later date to reinstate deferred items. However, continued cost increases for design and construction of the deferred items would decrease the net effective benefit of the reserve funds.

A second alternative is to adopt the proposed funding level increases for the more near term projects and fund them by deferring indefinitely one or more projects in the later years of the proposed CIP. This option would require that funding equivalent to two fire stations and one community policing center be defunded and alternative funding sources sought. This option would also allow the retention of a larger program-wide Contingency Reserve that could be utilized to reinstate the defunded projects at the end of the program. However, as in the scenario above, continued cost escalation would decrease the net effective benefit of the reserve fund.

PUBLIC OUTREACH

On May 24, 2006, staff briefed the Public Safety Bond Program Citizens Oversight Committee on the changes incorporated into the 2006-2007 Proposed Budget and 2007-2011 Proposed CIP.

COORDINATION

This MBA has been coordinated with the Fire, Police, and Public Works Departments and the City Manager's Office Budget Office.

/s/
ED SHIKADA
Deputy City Manager